

Copley Hospital

Fiscal Year 2016 budget analysis

Report Date:

8/11/2015

Copley Hospital

Melvyn Patashnick - CEO

Rassoul Rangaviz - CFO

Summary Budget to Budget Increase

The 2016 budget shows a 3.1% increase over the 2015 budget. The increase over 3% is all due to health care investments. The hospital was also asked by the GMCB to prepare the 2016 Budget recognizing that they exceeded the NPR budget level in 2014. They addressed this by reducing prices 3%. They will discuss this at the hearing.

Utilization is projected to be 5.3% lower, though the budget does include 4 new FTEs for clinical services. These two factors are resulting in unfavorable productivity measures. The hospital will discuss this at the hearing.

The operating surplus is budgeted at 2.1% of net revenues; this is lower than the 2.6% margin in 2015. The balance sheet is in a good position. The latest financial projections for 2015 show higher NPR and operating surplus is exceeding the approved budget level. The commercial cost shift is increased by \$2 million. Over \$2.5 million is related to declining revenues from Medicare and Medicaid. Lower bad debt and free care offset the decline by \$ 0.5 million.

Issues to Address at the Hearing

Discuss your rate **decrease** and the effects on your commercial payers.

Describe the reasons for the large shift being seen from the public payers to Commercial/self pays.

Discuss the improving trends being seen in bad debt and free care the last few years.

Discuss the need for additional FTEs that are not supported by higher utilization, resulting in productivity declines.

	2014A	2015B	2015P	2016B	B15-B16 Change	B15-B16 % Change
Net Patient Care Revenue	\$ 59,947,666	\$ 59,600,484	\$ 62,935,199	\$ 61,469,771	\$ 1,869,287	3.1%
Other Operating Revenue	\$ 1,804,863	\$ 1,510,753	\$ 1,337,003	\$ 1,523,468	\$ 12,715	0.8%
Total Operating Revenue	\$ 61,752,529	\$ 61,111,237	\$ 64,272,202	\$ 62,993,239	\$ 1,882,002	3.1%
Total Expenses	\$ 57,514,548	\$ 59,527,135	\$ 59,612,091	\$ 61,638,921	\$ 2,111,786	3.5%
Net Operating Income	\$ 4,237,981	\$ 1,584,102	\$ 4,660,111	\$ 1,354,318	\$ (229,784)	-14.5%
Operating Margin %	6.9%	2.6%	7.3%	2.1%	-0.4%	

Copley Hospital

Key Indicators	Actual 2013	Actual 2014	Budget 2015	Projected 2015	Budget 2016	Actual 2014-Budget 2015	Budget 2015-Budget 2016
Utilization							
Acute Care Ave Daily Census	11.1	10.8	11.7	12.3	11.0	0.9	-0.7
Total Average Daily Census	13	13	14	14	13	1	-0.9
Acute Average Length of Stay	2.8	2.6	2.9	2.6	2.6	0.3	-0.3
Acute Admissions	1,428	1,523	1,490	1,738	1,563	-33	73.0
Total Beds (Staffed)	31	31	31	31	31	0	0.0
Adjusted Admissions	5,315	5,571	5,786	5,615	5,482	215	-304.3
Adjusted Days	15,122	14,409	16,621	14,467	14,132	2,212	-2,489.9
Capital							
Age of Plant	10.8	9.7	10.7	10.6	10.9	0.9	0.2
Long Term Debt to Capitalization	14.1%	12.0%	11.8%	10.0%	22.6%	-0.1%	10.8%
Capital Expenditures to Depreciation	232.2%	106.2%	103.4%	138.1%	141.2%	-2.7%	37.8%
Debt per Staffed Bed	367,569	376,543	420,136	407,931	640,065	43,593	219,929
Net Prop, Plant & Equip per Staffed Bed	490,682	514,028	622,828	574,466	836,068	108,800	213,240
Debt Service Coverage Ratio	15.4	25.9	18.3	31.4	8.0	-7.6	-10.3
Revenue							
Deduction %	40.4%	41.7%	44.9%	43.0%	42.2%	3.2%	-2.7%
Bad Debt % of Gross Revenue	2.4%	2.3%	2.9%	2.2%	2.2%	0.6%	-0.7%
Free Care % of Gross Revenue	1.2%	1.2%	1.3%	1.0%	1.0%	0.1%	-0.3%
Operating Margin %	3.2%	6.9%	2.6%	7.3%	2.1%	-4.3%	-0.4%
Total Margin %	5.0%	7.2%	2.9%	8.0%	2.4%	-4.3%	-0.5%
All Net Patient Revenue % of Gross Rev	58.9%	57.5%	54.5%	56.4%	57.3%	-3.1%	2.8%
Medicare Net Patient Revenue % of Gross Rev (incl Phys)	50.9%	46.1%	48.0%	44.8%	46.9%	1.9%	-1.1%
Medicaid Net Patient Revenue % of Gross Rev (incl Phys)	37.9%	32.7%	35.3%	32.1%	32.6%	2.6%	-2.7%
Comm/self pay Net Patient Revenue % of Gross Rev (incl Phys)	72.1%	73.5%	65.4%	72.6%	72.7%	-8.1%	7.3%
Productivity							
Adjusted Admissions Per FTE	16.3	16.7	16.6	16.4	15.5	-0.1	-1.0
FTEs per 100 Adj Discharges	6.1	6.0	6.0	6.1	6.4	0.0	0.4
Overhead Expense w/ fringe, as a % of Total Operating Exp	23.7%	22.2%	23.8%	22.5%	22.9%	1.6%	-0.9%
FTEs Per Adjusted Occupied Bed	7.9	8.5	7.7	8.6	9.1	-0.8	1.4
Cost							
Cost per Adjusted Admission	10,080	10,324	10,287	10,616	11,244	(36)	956
Salary & Benefits per FTE - Non-MD	73,478	75,518	78,931	75,725	75,849	3,413	(3,082)
Compensation Ratio	57.5%	54.3%	59.6%	53.8%	57.0%	5.2%	-2.6%
Capital Cost % of Total Expense	4.0%	4.3%	4.4%	4.3%	4.4%	0.1%	0.1%
Liquidity							
Current Ratio	2.6	3.0	2.4	3.1	3.0	(0.6)	0.5
Days Cash on Hand	79.6	97.8	81.9	113.4	113.8	(15.9)	31.9
Cash to Long Term Debt	2.8	3.8	3.2	4.7	1.8	(0.6)	(1.4)
Payer							
DSH % of Total NPR	1.2%	1.4%	1.2%	1.1%	0.8%	-0.2%	-0.4%
Medicaid % of Total NPR (incl. DSH)	11.1%	10.4%	11.6%	9.9%	10.1%	1.2%	-1.5%
Medicare % of Total NPR (incl. DSH)	29.2%	24.2%	27.4%	25.6%	25.9%	3.2%	-1.5%
Commercial % of Total NPR (incl. DSH)	58.5%	64.1%	59.8%	63.4%	63.2%	-4.3%	3.4%
Employed							
Non-MD FTEs	325.4	334.0	349.3	342.5	352.9	15.3	3.6
Physician FTEs	14.9	16.5	17.2	16.1	18.8	0.7	1.6
Travelers	5.1	8.1	1.0	4.6	3.7	(7.1)	2.7
Outpatient							
All Outpatient Visits	91,996	101,521	94,327	98,294	99,292	(7,194)	4,965
Operating Room Procedure	1,424	1,520	1,840	1,486	1,594	320	(246)
Observation Units	663	487	550	517	550	63	0

The GMCB sent a letter to the hospital requiring Copley to prepare their 2016 budget recognizing they exceeded the GMCB NPR target levels in FY 2014 and to examine projected 2015 as part of that analysis. (see letter from GMCB attached and Copley response in their narrative) The result of this is a 3.1% increase in NPRs and a reduction in rates/prices of 3%.

1) The hospital is submitting an 3% decrease in overall rates. This is in part their response for exceeding the GMCB NPR target levels in FY 2014 and Projected 2015. The hospital is asked to discuss their plans to address this as part of their 2016 budget.

a) The 2014 actuals exceeded budget by \$1.9 million. Provide your rationale for addressing this variance with a 3% decrease in rates?

b) Who will actually see the 3% discount? Will that amount, on average, the discount that commercial payers will be paying? Describe the different reimbursement agreements you may have when contracting with commercial payers

2) Copley has submitted a 3.1% NPR increase. The increase over 3.0% is made up of an investment in ACOs. The NPR budget for 2016 is \$61.5 million.

a) If approved, that would be lower than the 2015 projection of \$62.7 million. It appears that the 2016 budget is achieving this by lowering both rates and utilization levels. How will the lower utilization levels be achieved?

3) Copley included a schedule in their narrative showing the volatility of NPR from year to year. This was used to help explain the difficulty trying to manage NPR to budget. Update the schedule to show the latest 2015 projections.

4) There have been significant increases in commercial/self pay NPRs and decreases in Medicaid and medicare NPRs. The narrative suggests much of this is related to commercial/self pay reimbursement.

a) Provide some specific examples of the better reimbursement you are seeing from commercial payers.

b) "Other NPR changes" in the rate schedule shows a \$3.7 million shift to commercial from Medicaid, Medicare, and self pay. What is happening here?

- 5) **Bad debt and free care levels have come down from 3.5% of gross revenues in 2014, 4.2% in Budget 2015, to 3.2% budgeted for 2016. Describe the recent changes you have seen in terms caseloads, patient coverages, billing disputes, etc. that might be influencing the changes. Is there any evidence this is related to higher enrollment and/or shift to Medicaid? Describe any changes in reporting that are influencing this.**
- 6) **The 2015 projection for Copley shows a surplus of \$4.7 million vs. a budgeted \$1.5 million. Much is explained as more utilization and better reimbursement. Are these projections still valid? If not, describe any material changes.**
- 7) **Copley states in the narrative that CMS changes will lower Medicare reimbursement by \$900,000. How much of that is related to the disallowance in the provider tax reimbursement? Is this part of the proposed rules at CMS? Does this change effect only Critical Access Hospitals?**
- 8) **Copley's narrative talks about the "revitalization of the general surgery program" which includes the return of an Orthopedic surgeon.**
- a) **The budget says overall utilization is lower, FTEs and physicians are increasing, and productivity is trending unfavorably. Clarify what is happening in the budget.**
- b) **Describe the utilization changes you are seeing in terms of number of cases, surgery types, and other utilization effects.**
- 9) **Salary per FTE shows a decline from budget 2015. Explain whether this is correct and if the hospital plans to increase wages.**

Copley Hospital
PROFIT & LOSS STATEMENT

	2014A	2015B	2015P	2016B	2015B-2016B	2016B
REVENUES						
INPATIENT	\$28,099,712	\$27,848,611	\$34,145,413	\$30,332,268	\$2,483,657	8.9%
OUTPATIENT	\$74,376,996	\$79,988,160	\$75,891,442	\$75,768,636	-\$4,219,524	-5.3%
PHYSICIAN	\$0	\$0	\$0	\$0	\$0	0.0%
CHRONIC REHAB	\$0	\$0	\$0	\$0	\$0	0.0%
SNF/ECF	\$0	\$0	\$0	\$0	\$0	0.0%
SWING BEDS	\$313,311	\$313,623	\$279,658	\$288,347	-\$25,276	-8.1%
GROSS PATIENT CARE REVENUE	\$102,790,019	\$108,150,394	\$110,316,513	\$106,389,251	-\$1,761,143	-1.6%
DISPROPORTIONATE SHARE PAYMENTS	\$819,721	\$696,562	\$696,562	\$498,874	-\$197,688	-28.4%
BAD DEBT	-\$2,320,138	-\$3,136,362	-\$2,426,963	-\$2,340,562	\$795,800	25.4%
FREE CARE	-\$1,196,689	-\$1,405,955	-\$1,103,165	-\$1,063,893	\$342,062	24.3%
GRADUATE MEDICAL EDUCATION	\$0	\$0	\$0	\$0	\$0	0.0%
DEDUCTIONS FROM REVENUE	-\$40,145,247	-\$44,704,155	-\$44,547,748	-\$42,013,899	\$2,690,256	6.0%
NET PATIENT CARE REVENUE	\$59,947,666	\$59,600,484	\$62,935,199	\$61,469,771	\$1,869,287	3.1%
OTHER OPERATING REVENUE	\$1,804,863	\$1,510,753	\$1,337,003	\$1,523,468	\$12,715	0.8%
TOTAL OPERATING REVENUE	\$61,752,529	\$61,111,237	\$64,272,202	\$62,993,239	\$1,882,002	3.1%
OPERATING EXPENSE						
TOTAL OPERATING EXPENSE	57,514,548	59,527,135	59,612,091	61,638,921	\$2,111,786	3.5%
NET OPERATING SURPLUS (LOSS)	\$4,237,981	\$1,584,102	\$4,660,111	\$1,354,318	-\$229,784	-14.5%
NON-OPERATING REVENUE	\$202,946	\$180,000	\$520,033	\$175,000	-\$5,000	-2.8%
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	\$4,440,927	\$1,764,102	\$5,180,144	\$1,529,318	-\$234,784	-13.3%

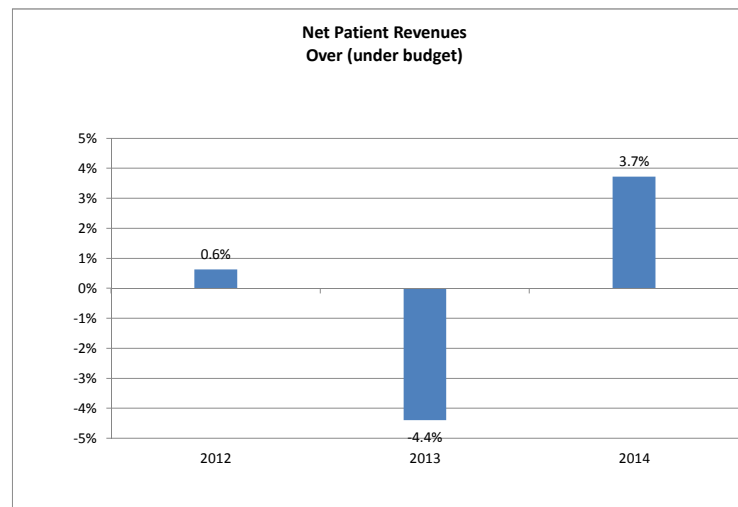
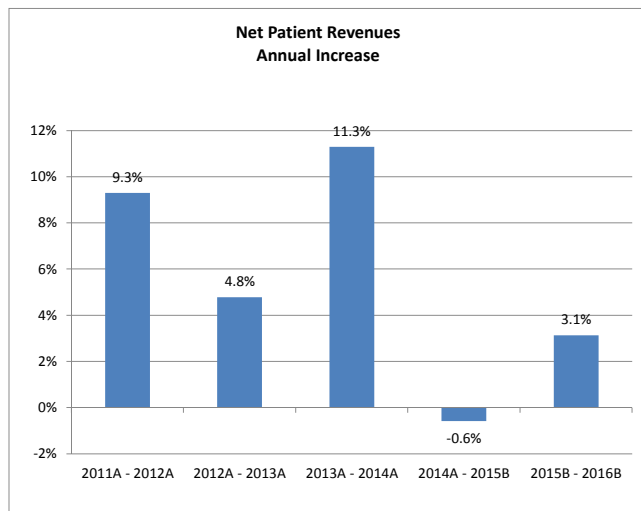
Physician revenue activity is included in the Outpatient revenue line. GMCB staff are working with hospitals to consistently align and report the information.

Bad debt and free care is budgeted at 2015 projectioned levels. This is lower than 2015 Budget. Copley will discuss at the hearing.

Higher expenses are driven primarily by non-salary expenses related to IT, new programs and supplies and 4 new FTEs. They are budgeting for significant cost savings in their fringe benefits.

Operating surplus has been reduced in 2016 in part to the meet NPR target and to address the budget overages in FY14 and FY15.

The NPR % amount over budget is shown below for the years 2012-2014.



NET PATIENT REVENUE PAYER MIX

Payer mix describes the reimbursement and patient change that occurs from year to year.

Net Patient Revenue - All	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	\$ 696,562	\$ 498,874	\$ (197,688)
Medicaid	\$ 6,926,379	\$ 6,191,218	\$ (735,161)
Medicare	\$ 16,330,682	\$ 15,913,468	\$ (417,214)
Commercial/self pay/Wcomp	\$ 35,646,861	\$ 38,866,211	\$ 3,219,350
TOTAL	\$ 59,600,484	\$ 61,469,771	\$ 1,869,287
			3.1%

NPR shows a 3.1% increase over the 2015 budget. This increase can be described as follows:

	Millions	% Share
Rate Increase	\$ (1.4)	-2.4%
Physician Practice Transfers	\$ -	0.0%
Lower Bad Debt/Free Care	\$ 1.1	1.9%
Disproportionate Share Loss	\$ (0.2)	-0.3%
Utilization Gain/Loss	\$ 0.9	1.5%
Health Care Reform Investmen	\$ 0.1	0.1%
Other NPR Changes	\$ 1.4	2.4%
	\$ 1.9	3.1%

This schedule presents net patient revenue change for the hospital. Essentially, this is a summary of who will pay the bill for the increases in the budget.

The 2016 budget shows a 3.1% increase over the 2015 budget. The increase over 3% is all due to Health Care Reform investments. The investment is related to increased ACO fees.

Utilization is budgeted to increase \$.9 million with almost 1/2 related to commercial payers.

However, the bigger change in commercial is related to "other NPR changes", where commercial showing a \$3.7 million increase offset by other payer reductions. This will be addressed at the hearing.

Copley Hospital**NET PATIENT REVENUE PAYER MIX**

Payer mix describes the reimbursement and patient change that occurs from year to year.

Net Patient Revenue - Hospital	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	\$ 696,562	\$ 498,874	\$ (197,688)
Medicaid	\$ 6,563,898	\$ 5,893,457	\$ (670,441)
Medicare	\$ 16,029,468	\$ 15,389,268	\$ (640,200)
Commercial/self pay/Wcomp	\$ 34,204,129	\$ 37,606,476	\$ 3,402,347
TOTAL	\$ 57,494,057	\$ 59,388,075	\$ 1,894,018

Net Patient Revenue - Physician	Bud 15 Total	Bud 16 Total	Change
Disproportionate share			\$ -
Medicaid	\$ 362,481	\$ 297,761	\$ (64,720)
Medicare	\$ 301,214	\$ 524,200	\$ 222,986
Commercial/self pay/Wcomp	\$ 1,442,732	\$ 1,259,735	\$ (182,997)
TOTAL	\$ 2,106,427	\$ 2,081,696	\$ (24,731)

Net Patient Revenue - All	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	\$ 696,562	\$ 498,874	\$ (197,688)
Medicaid	\$ 6,926,379	\$ 6,191,218	\$ (735,161)
Medicare	\$ 16,330,682	\$ 15,913,468	\$ (417,214)
Commercial/self pay/Wcomp	\$ 35,646,861	\$ 38,866,211	\$ 3,219,350
TOTAL	\$ 59,600,484	\$ 61,469,771	\$ 1,869,287

This schedule breaks out the net patient revenue changes between hospital and physician services.

You will note that the B15-B16 changes by payer may very well differ significantly when examining hospital vs. physician. This is because price changes, reimbursement, and utilization will differ for those services.

Our analysis finds a significant increase in hospital commercial NPR. Copley will explain what is happening with the shifts across all payers.

The disproportionate share change has been verified and a reduction will have an unfavorable effect on rate.

Copley Hospital

RATE TREND AND SOURCE OF REVENUES

Rate is the average change in price for services provided.

	Budget 2013 Approved	Budget 2014 Approved	Budget 2015 Approved	Budget 2016 Submitted	Average Annual 2014-2015
Copley Hospital	3.0%	6.0%	0.0%	-3.0%	3.0%
Weighted Average All Hospitals				4.3%	

	Bud 16 Total	Gross revenue from Rates	Net revenue from Rates
Hospital Inpatient	-3.0%		
Hospital Outpatient	-3.0%		
Professional Services	0.0%		
Nursing Home	0.0%		
Home Health	-3.0%		
Other	0.0%		
Summary price request	-3.0%	\$ (3,159,830)	\$ (1,446,156)

Utilization		\$ 890,328
Free care		\$ 342,063
Bad debt		\$ 795,797
Dispro share change		\$ (197,688)
Other NPR changes		\$ 1,484,943
Summary Other (non-price) request		\$ 1,398,687

Total NPR Increase Due to Price and Other	\$ (1,761,143)	\$ 1,869,287
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Commercial Payer	Self Pay/Other	Medicaid	Medicare	
\$ (1,395,383)	\$ (50,773)	\$ -	\$ -	

\$ 402,121	\$ 147,987	\$ (30,713)	\$ 370,933	\$ -
\$ 4,030	\$ 208,366	\$ 9,949	\$ 119,718	\$ -
\$ 131,140	\$ 599,823	\$ 71,621	\$ (6,787)	\$ -
\$ -	\$ -	\$ -	\$ -	\$ (197,688)
\$ 3,720,956	\$ (548,916)	\$ (786,019)	\$ (901,078)	\$ -
\$ 4,258,247	\$ 407,260	\$ (735,162)	\$ (417,214)	\$ (197,688)

\$ 2,862,864	\$ 356,487	\$ (735,162)	\$ (417,214)	\$ (197,688)
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The rate request is -3.0% with -3.0% budgeted in hospital inpatient and outpatient and also home health. No rate changes were budgeted for physician services or nursing home. The rate is expected to **decrease NPR** by \$1.4 million. The reduction is Copley's response for exceeding NPRs in 2014 and 2015. (see narrative)

Other changes in NPR will generate \$3.3 million in net patient revenue. The "Other NPR changes" shows Self pay, Medicaid, and Medicare with reductions that are shifting to commercial payers and these are not related to rate/price. The hospital has been asked to address this.

Copley Hospital
UTILIZATION & STAFFING

	2012A	2013A	2014A	2015B	2015P	2016B	B15-B16 Change
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Utilization

ADJUSTED ADMISSIONS	5,871	5,315	5,571	5,786	5,615	5,482	-5.3%
ACUTE ADMISSIONS	1,564	1,428	1,523	1,490	1,738	1,563	4.9%
AVERAGE LENGTH OF STAY	2.9	2.8	2.6	2.9	2.6	2.6	-10.3%
OUTPATIENT OPERATING ROOM PROCEDURES	1,482	1,424	1,520	1,840	1,486	1,594	-13.4%
LABORATORY TESTS	348,516	325,617	309,772	315,650	318,734	317,823	0.7%
EMERGENCY ROOM VISITS	13,450	13,520	13,122	13,645	13,748	13,463	-1.3%
RADIOLOGY-DIAGNOSTIC & CT SCANS	25,119	23,910	24,274	23,470	24,906	25,276	7.7%
MRIs	1,362	1,282	1,252	1,180	1,276	1,272	7.8%
PHYSICIAN OFFICE VISITS	10,902	11,149	14,040	14,757	26,366	27,819	88.5%
CLINIC VISITS	8,140	10,852	15,633	13,470	-	-	-100.0%

Staffing

NON-MD FTE	314	325	334	349	343	353	3.6
TRAVELERS	2.1	5.1	8.1	1.0	4.6	3.7	2.7
RESIDENTS & FELLOWS	-	-	-	-	-	-	0.0
MLPs	-	-	-	-	-	-	0.0
PHYSICIAN FTEs	13.7	14.9	16.5	17.2	16.1	18.8	1.6
TOTAL MD AND NON MD FTES	329.8	345.4	358.6	367.5	363.2	375.4	7.9
SALARY PER FTE - NON-MD	58,630	59,203	59,824	61,221	61,026	60,757	-0.8%
SALARY & BENEFIT PER FTE - NON-MD	74,859	73,478	75,518	78,931	75,725	75,849	-3.9%
FTES PER ADJUSTED OCCUPIED BED	6.7	7.9	8.5	7.7	8.6	9.1	18.8%
FTES PER 100 ADJUSTED DISCHARGES	5.3	6.1	6.0	6.0	6.1	6.4	6.6%

Budgeted 2016 utilization (adjusted admissions) shows a decline from 2015 budget and projected levels.

Copley has been asked why they are budgeting lower utilization for 2016 and will address this at the hearing.

There is also a large decrease in operating room procedures .

Non MD staffing is increasing by 4, many related to new programs and clinical needs.

Productivity indicators are trending unfavorably as FTEs are being added while utilization is decreasing.

Copley Hospital
BALANCE SHEET & INDICATORS

	2014A	2015B	2015P	2016B
Cash & Investments	\$11,577,273	\$10,037,131	\$15,152,438	\$15,778,886
Total Current Assets	\$20,013,897	\$19,136,131	\$24,825,438	\$25,330,886
Total Board Designated Assets	\$3,189,432	\$2,750,000	\$2,596,714	\$2,607,072
Total Net, Property, Plant And Equipment	\$15,934,873	\$19,307,665	\$17,808,456	\$25,918,097
Other Long-Term Assets	\$1,439,218	\$1,600,000	\$1,500,000	\$1,600,000
Total Assets	\$40,577,420	\$42,793,796	\$46,730,608	\$55,456,055
Total Current Liabilities	\$7,737,737	\$9,023,000	\$8,842,866	\$9,413,772
Long-Term Debt	\$3,935,092	\$4,001,201	\$3,803,008	\$10,428,236
Other Noncurrent Liabilities	\$0	\$0	\$0	\$0
Total Fund Balance	\$28,904,591	\$29,769,595	\$34,084,734	\$35,614,047
Total Liabilities and Equities	\$40,577,420	\$42,793,796	\$46,730,608	\$55,456,055

The hospital's overall balance sheet shows a continued improvement in net assets (fund balance).

Debt is higher in 2016, anticipating a possible need for a higher line of credit if capital needs arise. Board Designated Assets are lower than Budget 2015 levels.

Hospital				
Net Increase/Decrease in Cash	\$ 4,198,361	\$ 1,805,435	\$ 3,575,165	\$ 5,741,755
Days Cash on Hand	98	82	113	114
Cash to Long Term Debt	3.8	3.2	4.7	1.8
Long Term Debt to Capitalization	12.0%	11.8%	10.0%	22.6%
Debt Service Coverage Ratio	25.9	18.3	31.4	8.0

Copley's cash is expected to improve in Budget 2016. Debt indicators will show an increase if the line of credit is used.

System Average				
Net Increase/Decrease in Cash	\$ 54,485,472	\$ 74,776,400	\$ 21,398,061	\$ (11,067,200)
Days Cash on Hand	176	181	185	180
Cash to Long Term Debt	1.9	1.6	1.7	1.7
Long Term Debt to Capitalization	29.6%	32.3%	32.6%	31.3%
Debt Service Coverage Ratio	3.3	3.1	2.9	2.8

Cash measure compares unfavorably against the system average.

Debt measures are favorable compared to the system.

Copley Hospital

CAPITAL BUDGET

	2014 Actuals	2015 Budget Approved	2015 Projection	2016 Budget	2017 Plan	2018 Plan	2019 Plan
Non-Certificate of Need Capital Purchases	\$2,561,119	\$2,642,111	\$3,458,260	\$3,802,035	\$3,877,600	\$2,931,122	\$3,685,877
Certificate of Need Capital Plans		\$2,000,000	\$1,132,458	\$7,000,000	\$3,500,000	\$5,000,000	\$3,000,000
Total Capital Purchases	\$2,561,119	\$4,642,111	\$4,590,718	\$10,802,035	\$7,377,600	\$7,931,122	\$6,685,877

Hospital

Age of Plant (years)	9.7	10.7	10.6	10.9	helps understand the status of all fixed assets
Capital Expenditures to Depreciation	106.2%	103.4%	138.1%	141.2%	helps to understand current level of capital spend
Capital Cost % of Budget	4.3%	4.4%	4.3%	4.4%	helps understand relative share of depr & interest

System Average

Age of Plant (years)	10.2	10.9	11.0	11.9
Capital Expenditures to Depreciation	80.6%	122.4%	131.0%	95.1%
Capital Cost % of Budget	5.9%	6.0%	5.9%	5.8%

Age of plant is increasing in Bud 16 but compares favorably with the Vermont hospital system.

Copley spending has been higher than the system over the last few years though capital cost % of budget remains lower than the system.

Non CON capital items include building improvements -Signage/wayfaring. Also, Copley has a CON for a surgical suite planned to start in 2016 and extend into 2017 for a total of \$10.5 million.

	2016 Budget	2017 Plan	2018 Plan	2019 Plan
Non Certificate of Need Detail				
Construction in Progress (Non-CON>\$500K)	\$0	\$0	\$0	\$0
Land & Land Improvements (Non-CON >\$500K)	\$0	\$0	\$0	\$0
Total Buildings & Building Improvements (Non-CON >\$500K)	\$0	\$500,000	\$0	\$0
Total Fixed Equipment (Non-CON >\$500K)	\$0	\$0	\$0	\$0
Total Major Movable Equipment (Non-CON >\$500K)	\$0	\$0	\$0	\$0
Other Non CON Items under \$500,000	\$3,802,035	\$3,377,600	\$2,931,122	\$3,685,877
Total Non-Certificate of Need Capital Purchases	\$3,802,035	\$3,877,600	\$2,931,122	\$3,685,877

Certificate of Need Plans

Certificate of Need Proposals				
OR ADDITION (Copley Hospital)	\$ -	\$ -	\$ -	\$ -
Surgical Suite (Copley Hospital)	\$7,000,000	\$3,500,000	\$ -	\$ -
MRI Upgrade (Copley Hospital)	\$ -	\$ -	\$5,000,000	\$ -
Medical Office Bldg (Copley Hospital)	\$ -	\$ -	\$ -	\$3,000,000
Total Certificate of Need Proposals	\$7,000,000	\$3,500,000	\$5,000,000	\$3,000,000

Green Mountain Care Board
89 Main Street
Montpelier, VT 05620

[phone] 802-828-2177
www.gmcboard.vermont.gov

Alfred Gobeille, Chair
Con Hogan
Jessica Holmes, PhD
Betty Rambur, PhD, RN
Allan Ramsay, MD
Susan Barrett, JD, Executive Director

April 3, 2015

Copley Hospital

Melvyn Patashnick, CEO
528 Washington Highway
Morrisville, VT 05661

Dear Mr. Patashnick:

This letter is to inform you of the Green Mountain Care Board's concerns regarding your 2014 budget to actual performance. Your budget was significantly outside the enforcement policy and the Board is looking for you to conform to the policy going forward. It is the expectation of the GMCB that you will build your 2016 Budget recognizing that you exceeded your 2014 budget and should explain how you will remedy that as part of your 2016 Budget submission.

The FY 2016 budget instructions will be forthcoming and will include basic principles to limit growth and improve quality outcomes. The Board realizes that each hospital has unique circumstances and we will consider those circumstances as part of the budget review. However, as in recent years, we recognize the need for a careful balance of the concerns of Vermont citizens and businesses with the financial health of the hospital industry.

The Board recognizes that a number of factors influence the final year net patient revenues (NPR) and the subsequent operating results. Your 2014 budget to actual performance reflected several items (attached) that led to the higher NPR. As a result, your commercial prices that were authorized in your 2014 approved hospital budget resulted in a greater level of NPR than was necessary.

The guidance to prepare your 2016 budget includes:

- 1) You should consider both 2014 actuals and 2015 projections and examine the extent that your approved rates were too high;
- 2) Reducing prices or a lower rate request should be considered for FY 2016;
- 3) You should identify those items or assumptions that might materially change the budget;
 - a. Revenue estimates for each payer type,
 - b. Significant payer mix utilization shifts such as the large shift seen in your commercial insurance business,

- c. Bad debt and free care trends,
- d. Outstanding revenue settlements,
- e. Any other unusual events.

4) Your 2016 budget narrative should explain how you addressed these considerations.

Your hospital staff should feel free to contact me or my staff, (Lori Perry and Janeen Morrison) if you have questions about the budget policies, budget instructions, schedules, or the Adaptive Insights budget tool.

Sincerely,

s/Michael Davis

Michael Davis

Director of Health System Finances

Green Mountain Care Board

Cc: Green Mountain Care Board Members
Rassoul Rangaviz, CFO, Copley Hospital

Copley Hospital Profit & Loss Statement					
	2014B	2014A	2014B - 2014A		2015B
			\$ Difference	% Change	
Gross Patient Care Revenue	\$102,513,415	\$102,790,019	\$276,604	0.3%	\$108,150,394
Net Revenue Deductions	(\$44,717,790)	(\$42,842,353)	\$1,875,437	-4.2%	(\$48,549,910)
Net Patient Care Revenue	\$57,795,625	\$59,947,666	\$2,152,041	3.7%	\$59,600,484
Other Operating Revenue	\$1,501,480	\$1,804,863	\$303,383	20.2%	\$1,510,753
Total Operating Revenue	\$59,297,105	\$61,752,529	\$2,455,424	4.1%	\$61,111,237
Operating Expense	\$57,502,182	\$57,514,548	\$12,366	0.0%	\$59,527,135
Net Operating Income (Loss)	\$1,794,923	\$4,237,981	\$2,443,058	136.1%	\$1,584,102
Non-Operating Revenue	\$223,000	\$202,946	(\$20,054)	-9.0%	\$180,000
Excess (Deficit) Rev over Exp	\$2,017,923	\$4,440,927	\$2,423,004	120.1%	\$1,764,102

Copley Hospital exceeded the net patient revenue variance by about \$1.9 million. The primary reasons for the variance are due to higher outpatient utilization in Commercial insurance and lower bad debt and free care than was budgeted.

Copley explains that since they received a higher surplus than was budgeted, they will use this when determining any rate needs for 2016 Budget. They note that they did not request a rate increase in 2015.

It is my estimate that an overall rate increase of 3.5-4% for Copley would yield about \$1.9 million in net patient revenues.

Analysis of net patient revenues Copley Hospital

Net Patient Revenue	2014B	2014A	Change	% Change					
Disproportionate share	\$ 815,029	\$ 819,721	\$ 4,692	0.6%	Change in DVHA calculation.				
	\$ -	\$ -	\$ -						
Medicaid	\$ 6,623,493	\$ 6,231,743	\$ (391,750)	-5.9%	Less Medicaid utilization.				
	\$ -	\$ -	\$ -						
Medicare	\$ 15,431,048	\$ 14,480,276	\$ (950,772)	-6.2%	Less Medicare utilization.				
	\$ -	\$ -	\$ -						
Commerical/self pay/Wcomp	\$ 34,926,055	\$ 38,415,926	\$ 3,489,871	10.0%	Increase in outpatient utilization, payer shift				
	\$ -	\$ -	\$ -						
TOTAL	\$ 57,795,625	\$ 59,947,666	\$ 2,152,041	3.7%					
NPR allowed variance at 0.5%			\$ 288,978						
Variance to be explained			\$ 1,863,063						
Variance adjusted to recognize lower NPR request in Budget 2014			(\$504,247)						
Variance to be explained			\$ 1,358,816						
Bad debt and free care lower than budget			\$ 993,765						
Lower medicare and medicaid utilization			\$ (1,342,522)						
Increased commercial revenue, outpatient utilization, better reimbursement			\$ 2,496,106						